

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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UNCLAS ROME 10275

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: BOI ACTION TO ENCOURAGE SECONDARY MARKET FOR
TREASURY BILLS

REF: A. ROME 4221 DATED MARCH 24, 1975

B. ROME 6272 DATED APRIL 29, 1975

1. IN LINE WITH NEW SYSTEM ADOPTED BY MONETARY AUTHORITIES
FOR SALE OF BOT'S (ORDINARY TREASURY BILLS) PER REFTELS,
BANK OF ITALY RECENTLY ANNOUNCED ADOPTION OF NEW POLICY WHEREBY
IT WILL IN PRINCIPLE, REFRAIN FROM PURCHASING AND SELLING BOT'S
DIRECTLY WITH OTHER HOLDERS. PREVIOUSLY (SEE REF A) BOI WAS
BOTH RESIDUAL BUYER OF BOT NEW ISSUES AND BANK ALSO WAS SUB-
SEQUENTLY PREPARED TO SELL BILLS ON DEMAND AT LOWEST PRICE
OFFERED AT LATEST AUCTION, IMPOSING SURCHARGE OF 2-3 LIRE
PER 100 LIRE. OLD SYSTEM HAD BEEN CRITICIZED BECAUSE POTENTIAL BOT
PURCHASERS HAD OPTION OF AWAITING OUTCOME OF AUCTION AND THEN
PURCHASING BOT'S DIRECTLY FROM BANK OF ITALY AT KNOWN PRICE
RATHER THAN PARTICIPATING IN AUCTION WITH CLOSED BID.

2. DIRECT PARTICIPATION OF BOI IN AUCTION OF NEW BILLS

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THROUGH CLOSED BID WAS DESIGNED TO FORCE BANKS TO MORE

ACTIVELY PARTICIPATE IN AUCTION, AS WAS EXPANSION OF ELIGIBLE
BIDDERS LIST TO INCLUDE INSURANCE COMPANIES, FINANCE
COMPANIES, SPECIAL CREDIT INSTITUTES AND EVENTUALLY STOCK
BROKERS.

3. NEW BOI POLICY OF STRICTLY LIMITING ITS POST-AUCTION
DEALINGS WILL FORCE HOLDERS OF BOT'S TO PURCHASE AND SELL
THEM AMONG THEMSELVES IN NEWLY EXPANDED SECONDARY MARKET,
WITH PURCHASE PRICE DETERMINED BY MARKET FORCES AND WITH THESE
INSTRUMENTS CONSTITUTING A MORE READILY AVAILABLE ALTERNATIVE
FORM OF INVESTMENT OF EXCESS LIQUIDITY. IT IS CLEAR, HOWEVER,
THAT AS A MAJOR INSTRUMENT OF MONETARY POLICY BOI MAY BE
REQUIRED FROM TIME TO TIME TO ENTER SECONDARY BOT MARKET IN
SUPPORT OF OVERALL MONETARY POLICIES AND OBJECTIVES.VOLPE

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